New Nouveau Brunswick

THE NEW BRUNSWICK TAX STRUCTURE
A REVIEW

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SECTION I
INTRODUCTION

The Province provides important services such as education, health care, highways, economic development, etc., and the Province's tax system is called upon to provide the funds needed to meet these expenditures. The current tax system has evolved over time in response to changing social and economic circumstances. Since the main elements of the Province's tax system do not undergo an annual review, as does the expenditure side of the budget, it is important from time to time that the Legislature and the people of New Brunswick step back and consider the main features of the tax system in light of current circumstances.

The context in which this report has been prepared covers a wide territory. The main features of importance include the following:

- The economy is in one of the most difficult recessions faced in the last two decades. This has affected our industries, led to unemployment and reduced provincial revenues.

- The federal government has reduced the rate of growth in its payments in support of provincial programs and services. This means that the Province is having to depend more and more on its own tax base to finance important programs like health, education, transportation, etc.

- The federal government has moved heavily into taxes on alcohol, gasoline, and tobacco, and as of January 1, 1991 the retail sales tax field in the form of the GST. This has put pressure on traditional areas of provincial taxation and this has become a particular problem in provinces that rely heavily on consumption taxation.

- The world has become more competitive on a global basis and cross border shopping has increased significantly, partly due to tax differentials between New Brunswick and the State of Maine.

This report provides descriptive information and preliminary analysis about key elements of New Brunswick's tax system. It is intended that this report provide background information which will generate public discussion on the type of tax system that will be best suited to New Brunswick in the years ahead. While the Government may adopt some of the changes in the tax system that are outlined in this paper, other possibilities are put forward to provide a catalyst for debate and are not necessarily in whole or in part changes that the Government intends to pursue.

Section II provides a description and an analysis of the current tax system in New Brunswick. It gives an overview of each of the main tax sources that the Province draws on to fund public programs. The section gives a historical review of each tax and provides background information on the Province's current tax system and how that system compares with other jurisdictions.

Section III introduces and examines some important current issues that have emerged, and which have implications for the tax system. New Brunswick's relatively heavy reliance on consumption taxes and the impact of relatively high tax rates in respect to cross border shopping is examined. Other matters examined in the section include the issue of equity in the tax system. For some time now there has been debate about whether large numbers of individuals and corporations pay their share of taxes. This section examines this issue.

Section IV outlines a series of possibilities to rebalance the tax system in New Brunswick. Drawing on issues identified in Section III, this section outlines a number of possibilities that could be put in place in a major effort to rebalance the tax system.

SECTION II
REVIEW OF THE CURRENT TAX STRUCTURE

The Province's tax base is determined by two factors; the economy and government policy. The economy is the main factor and it determines the ultimate parameters of the tax base.

While the economy determines the potential tax base, government policy determines to what extent that potential is exploited. There are two main factors which determine government policy as it relates to the tax base:

- The first is the Constitution Act, 1867, which limits provinces to methods of direct taxation and prevents provinces from implementing taxes which would result in barriers to trade.

- The second factor which determines what enters the tax base is the non-taxation related objectives that government may want to pursue through the tax system. For example, the tax system may be used to effect economic or social policy objectives.

THE PROVINCE'S TAX SYSTEM

New Brunswick has a smaller tax base, compared to the larger provinces. As a result, even with equalization payments, New Brunswick has had to resort to higher levels of taxation than some of the larger provinces in order to generate sufficient revenues to fund provincial programs and services. In light of recent federal cutbacks the Province has been forced to shoulder an increased financial burden. It is widely recognized that New Brunswick's options to raise taxes are limited.

While New Brunswick levies taxes in most major fields, it has chosen not to exploit some of the available tax bases utilized in some other provinces. Some of the most important examples are: hospital insurance premiums, payroll taxes and a broadly based capital tax on corporations.

An examination of the Province's tax system shows that New Brunswick relies heavily on the personal income tax and taxes on consumers. It is evident that New Brunswick's rates of tax are generally relatively high when compared with other provinces. One notable exception is the property tax on owner-occupied dwellings. It also appears that for any given tax the exemptions offered in New Brunswick are roughly comparable to those in other provinces.

The Province's total revenues are derived from two different sources. The first is Own Source Revenue which include taxes and fees, the second is transfer payments such as Established Programs Financing and Equalization. Own Source Revenue combined with all transfer payments represent Gross Ordinary Revenues.

New Brunswick gets 53 percent of its Gross Ordinary Revenues and 86 percent of Own Source Revenues from thirteen taxes. However, there are certain major Own Source Revenues, namely the income taxes, over which New Brunswick does not have unilateral control. If the income taxes are excluded, New Brunswick has direct control over only 33 percent of its Gross Ordinary Revenues and 55 percent of its Own Source Revenue.

Table 2.1 presents the 1991-92 Second Quarter revenue estimate for each tax source. It is evident that the three largest tax sources are the personal income tax, the sales tax and the provincial property tax.

TABLE 2.1
SECOND QUARTER ESTIMATE
TAXES
1991-92

Tax	Revenue ($Million)	Percent of Own Source Revenue	Percent of Gross Ordinary Revenue
Personal Income Tax	698.6	29.3	18.6
Social Services and Education Tax	630.0	26.4	16.8
Provincial Real Property Tax	202.8	8.5	5.4
Municipal Real Property Tax	197.0	8.3	5.2
Gasoline and Motive Fuel Tax	129.2	5.4	3.4
Corporate Income Tax	86.9	3.6	2.3
Tobacco Tax	70.0	2.9	1.9
Insurance Premium Tax	18.3	0.8	0.5
Corporation Capital Tax	9.5	0.4	0.3
Property Transfer Tax	2.8	0.1	0.0
Amusement Admission Tax	1.8	0.1	0.0
Metallic Minerals Tax	0.7	0.0	0.0
Pari-Mutuel Tax	0.1	0.0	0.0
Sub-Total: Taxes	2,047.6	85.8	54.5
TOTAL: Own Source Revenue	2,385.3	--	--
GROSS ORDINARY REVENUE	3,759.3	--	--

NOTE: Columns may not add due to rounding.

THE INCOME TAXES

The Canada/New Brunswick Tax Collection Agreement provides an institutional framework which enables both Canada and New Brunswick to exercise their respective Constitutional rights to access to the income tax field through a single administration and collection agency.

The Tax Collection Agreement, which applies to nine provinces for personal income taxes and seven provinces for corporate income taxes, eliminates the need for duplicate collection and administrative structures. (Quebec collects its own personal and corporate income taxes while Ontario and Alberta collect their own corporate income taxes.) For taxpayers and employers, the single administrative process provides a simpler system, significantly reducing compliance costs. In entering a Tax Collection Agreement, the Province accepts some limitations on its flexibility to set policies independently in return for the economic and administrative benefits of having the federal government collect the Province's income taxes essentially free of charge.

As a party to the Tax Collection Agreement the Province agrees to impose a single rate of tax in the case of individuals and has the choice of applying a standard rate of tax on large corporations as well as a small business rate. The Province also agrees to accept the federal definition of the tax base by ensuring that the Provincial Income Tax Act is continually amended to parallel the federal Act.

The federal government, in recognition of the fact that provinces have wanted some leeway in accepting the constraints of the Agreements, has agreed in the past to administer special provincial measures so long as they:

- respect the common tax base;
- do not impede the free flow of capital, goods, services and labor within Canada; and
- can be administered effectively.

The federal government has declined, on a number of occasions, to administer provincial proposals because they violated the above guidelines.

The existence of tax credits, surtaxes, and low income tax reductions allow provinces some flexibility in altering the tax base at the margins, however, for both personal and corporate income taxes the basic definition of the tax base resides solely with the federal government. The federal government determines the definition of income for tax purposes and it defines the deductions from income to arrive at taxable income. The Province's only discretion is in terms of the provincial income tax rate, which in the case of individuals applies to basic federal tax, and in the case of corporations applies to taxable income.

PERSONAL INCOME TAX

New Brunswick's statutory personal income tax rate of 60.0 percent is applied to basic federal tax to determine provincial tax payable. As indicated previously, the kinds of income subject to tax, deductions, exemptions and tax credits are largely determined by federal policy. Some of the features of the personal income tax are intended to improve the tax's equity while others are designed to encourage a particular type of activity or behavior.

In 1985, a significant change was introduced in the way in which a province participating in a Tax Collection Agreement applied its income tax. Saskatchewan in its 1985 Budget announced it would levy a form of flat tax. Saskatchewan's flat tax is a 2 percent tax applied to net income. In reality a flat tax is a proportional tax, that is each and every income earner pays the same proportion of their net income (2 percent) in tax. The use of a flat tax is an application of tax which does not conform to the commonly understood constraints imposed by the Tax Collection Agreement. This tax does not apply to federal basic tax which is the tax base used in other provinces. It is a special tax applied to "net income" not "basic federal tax". The federal government nevertheless agreed to administer Saskatchewan's flat tax.

Saskatchewan's flat tax led to similar measures by Manitoba and a flat tax on taxable income by Alberta. Other provinces have been refused the option to consider flat taxes. This situation raised questions as to the future of the Tax Collection Agreements and the extent to which provinces will be able to pursue a more direct role in determining an income tax policy specific to their particular requirements.

Over the last several years provinces have requested more flexibility in the income tax system. In response to the provincial requests for more flexibility, the federal government in its 1991 Budget announced that it would release a discussion document on the possibility of provinces applying their tax directly to taxable income, instead of on federal basic tax as is now the case. This paper was released, public input was sought, and Finance Ministers have met to discuss the issue. The federal government and the Provinces continue to investigate this matter and a decision is expected this year on whether this change will be made.

The personal income tax is a progressive tax. As one moves up in the taxable income range, so does one's marginal tax rate. Because of this characteristic the income tax is generally viewed as the fairest form of tax. The progression in tax rates is shown in Table 2.2.

TABLE 2.2
PERSONAL INCOME TAX RATES
NEW BRUNSWICK

Taxable Income	Marginal Federal Rate (%)	Combined Federal\ Provincial Marginal Rate (%)
$28,784 or Less	17.85	28.05
$28,784 - $57,568	27.30	42.90
$57,568 and Above	31.90	49.30
Top Marginal Rate	31.90	50.69

SOURCE: 1991 General Tax Guide.
Note: These rates reflect: a) the rates of federal income tax on taxable income; b) the rate of provincial income tax; c) federal surtaxes, and d) the New Brunswick surtax.

Recent Changes

The personal income tax rate was increased in the 1983-84 Budget, from 55.5 percent to 58 percent. In 1988 the tax rate increased from 58 percent to 60 percent. In the 1991 Budget a high income surtax of 8 percent of provincial tax in excess of $13,500 was introduced. In general this tax applies to those earning in the $100,000 range and over.

New Brunswick's personal income tax rate of 60 percent of basic federal tax is high compared to other provinces. Of the provinces in the Tax Collection Agreement only Newfoundland, at 62 percent, has a higher rate. Quebec's income tax rate, although not directly comparable to other provinces, is generally conceded to be the highest in the country.

Table 2.3 provides an interprovincial comparison of each province's income tax structure. The effective personal income tax rate shows the ratio of personal income taxes raised in a province to the amount of federal basic tax allocated to the province. The effective tax rate reflects the statutory rate plus an adjustment to cover flat taxes and surtaxes that various provinces employ. Quebec with an effective personal income tax rate of 75.3 percent of federal basic tax, Saskatchewan at 64.3 percent, Manitoba at 63.2 percent and Newfoundland at 61.9 percent all have effective tax rates which are higher than New Brunswick's 60.2 percent.

The personal income tax is considered to be one of the fairest forms of tax. It enhances the equity of the Province's tax system. On the other hand, high marginal income tax rates may impact on an individual's work effort and the trade-off made between work and leisure. In addition, high marginal rates impact on the taxpayer's willingness to take investment risks. These are all issues which must be assessed in considering the appropriate provincial tax rate.

TABLE 2.3
PROVINCIAL PERSONAL INCOME TAX

Province	Statutory Rate*	Special Features	Tax Collected as a % of BFT
Newfoundland	62.0	None	61.9
Prince Edward Island**	59.5	10% surtax on provincial tax payable in excess of $12,500	58.6
Nova Scotia	59.5	10% surtax on provincial tax in excess of $10,000	60.1
New Brunswick	60.0	8% surtax on provincial tax payable in excess of $13,500	60.2
Quebec	Graduated		75.3
Ontario	53.0	14% surtax on provincial tax payable in excess of $10,000	53.6
Manitoba	52.0	2% flat tax on net income PLUS 2% flat tax on net income in excess of $30,000	63.2
Saskatchewan	50.0	2% flat tax on net income plus a 15% surtax on provincial tax payable in excess of $4,000	64.3
Alberta	46.5	0.5% flat tax on taxable income plus an 8% surtax on provincial tax in excess of $3,500	49.3
British Columbia	51.5	10% surtax on provincial tax in excess of $9,000	51.9

*Expressed as a percent of basic federal tax.

**The 58.6% effective tax rate reflects the 57% rate on federal basic tax which existed in 1991.

Because the basic characteristics of personal income tax arise from federal policy, there is a considerable degree of tax harmony across the country, and differences in an individual's income tax obligations in Ontario and New Brunswick are relatively small. To illustrate, for a single taxpayer having $30,000 of taxable income, his income tax liability in New Brunswick in 1991 would be only $272 more than in Ontario. In Saskatchewan the individual would pay $212 more in income tax than a New Brunswick resident and in Manitoba he would pay an additional $231.

Table 2.4 provides historical revenue information for the personal income tax. It is obvious that this revenue source has contributed a relatively stable share of provincial revenue over the last decade. Currently the personal income tax represents 29.3 percent of Own Source Revenue and is New Brunswick's single most important source of revenue. The personal income tax has contributed between 25 and 30 percent of Own Source Revenue since 1975.

TABLE 2.4
HISTORICAL REVENUE DATA
PERSONAL INCOME TAX
($000)

Year	Revenue	Percent Change	Percent of Own Source Revenue	Percent of Gross Ordinary Revenue
1980-81	225,229.6	11.5	25.7	14.7
1981-82	263,680.4	17.1	26.9	14.9
1982-83	320,559.6	21.6	30.6	16.5
1983-84	347,680.6	8.5	27.8	15.7
1984-85	355,601.2	2.3	25.8	15.0
1985-86	402,993.3	13.3	26.2	15.1
1986-87	416,202.0	3.3	25.6	15.0
1987-88	511,595.9	22.9	28.3	16.9
1988-89	542,137.0	6.0	26.8	16.3
1989-90	607,632.2	12.1	27.9	17.0
1990-91	677,863.6	11.5	30.0	18.3
1991-92*	698,600.0	3.1	29.3	18.6

SOURCE: New Brunswick Department of Finance
*Second Quarter Estimate 1991-92

CORPORATE INCOME TAX

New Brunswick's corporate income tax rates are applied to a corporation's taxable income that is allocated to New Brunswick.

As with the personal income tax, the corporate income tax base is defined by federal legislation, and federal legislation specifies the procedure for allocating taxable income to a particular province. Like the personal income tax, there are deductions, exemptions and tax credits which corporations can utilize to reduce tax paid. These are defined by the federal government.

For most types of business the allocation of corporate taxable income is made on the basis of the corporation's share of revenue generated in a given province, and wages paid in that province relative to the corporation's overall operation. For certain industries there are special allocation procedures. These industries include banks, other financial institutions, railways, airlines, grain elevator operators, bus and truck transportation operators, pipeline operators and ship operators. In cases such as these, direct units of measurement which are specific to the industry are used to allocate corporate taxable income. For example, for railway companies the allocation of taxable income to a province is done on the basis of track miles, and gross ton miles. In the case of banks, allocations are made on the basis of wages and salaries and loans and deposits in a given province compared to the total for the bank's Canadian operations.

New Brunswick's corporate income tax rates are currently at 17 percent for the standard corporate tax rate and 9 percent for income eligible for the federal small business deduction. Only Canadian controlled private corporations qualify to have income eligible for the small business rate. Some of these companies however, are among the largest in Canada.

As is evidenced from Table 2.5 New Brunswick's standard corporate tax rate of 17 percent is tied with Manitoba and Newfoundland for the highest rate in Canada.

TABLE 2.5
CORPORATE INCOME TAX RATES
(%)

Province	Small Business	Standard
Newfoundland	10	17
Prince Edward Island	10	15
Nova Scotia	10	16
New Brunswick	**9**	**17**
Quebec	3.75	6.9
Ontario	10	15.5
Manitoba	10	17
Saskatchewan	10	16
Alberta	6	15.5
British Columbia	9	15

SOURCE: New Brunswick Department of Finance.

Table 2.6 provides an interprovincial comparison of the combined federal-provincial tax rate for different types of corporations. In New Brunswick the combined federal/provincial corporate tax rate for large business is tied for the highest and the rate for small business is the fourth lowest. Quebec's low corporate income tax rates, which are not comparable to the other provinces, are offset by its broadly based capital tax and its payroll tax.

TABLE 2.6

COMBINED FEDERAL AND PROVINCIAL CORPORATE INCOME TAX RATES

			Company Eligible for Manufacturing and Processing Reduction	
Province	Full Corporate Tax Rate	Rate With Small Business Deduction	Full Corporate Tax Rate	Rate With Small Business Deduction
Newfoundland	45	22	40	22
Prince Edward Island	43	22	38	22
Nova Scotia	44	22	39	22
New Brunswick	45	21	40	21
Quebec	34.33	15.45	29.33	15.45
Ontario	43.5	22	37.5	22
Manitoba	45	22	40	22
Saskatchewan	44	22	39	22
Alberta	43.5	18	32	12
British Columbia	42	21	37	21

SOURCE: New Brunswick Department of Finance.

The corporate income tax is generally viewed as a complement to the personal income tax. Without some type of tax on corporate income it is possible that income distributed as dividends would escape taxation entirely. Also, dividends paid outside the country would escape provincial tax. The corporate income tax is also a significant source of revenue.

As of the 1991-92 Second Quarter estimate, the corporate income tax was expected to generate $86.9 million. This represents 3.6 percent of own source revenue. As is evident from Table 2.7 this revenue source is highly volatile and is very sensitive to the performance of the economy. Over the period 1970-71 to 1991-92 it has ranged from a low of 3.2 percent to a high of 8.8 percent of own source revenue.

TABLE 2.7
HISTORICAL REVENUE DATA
CORPORATE INCOME TAX
($000)

Year	Revenue	Percent Change	Percent of Own Source Revenue	Percent of Gross Ordinary Revenue
1980-81	74,690.8	203.6	8.5	4.9
1981-82	85,883.1	15.0	8.8	4.9
1982-83	33,231.8	-61.3	3.2	1.7
1983-84	39,695.6	19.5	3.2	1.8
1984-85	64,482.0	62.4	4.7	2.7
1985-86	85,898.4	33.2	5.3	3.2
1986-87	66,758.9	-22.3	4.1	2.4
1987-88	76,475.7	14.6	4.2	2.5
1988-89	119,591.3	56.4	5.9	3.6
1989-90	115,118.6	-3.7	5.3	3.2
1990-91	77,776.1	-32.4	3.4	2.1
1991-92*	86,900.0	11.7	3.6	2.2

SOURCE: New Brunswick Department of Finance,
*Second Quarter Estimate 1991-92.

SOCIAL SERVICES AND EDUCATION TAX (SALES TAX)

The retail sales tax is expected to generate $630 million in 1991-92 which represents 26.4 percent of Own Source Revenue. Since 1975 the sales tax has represented between 21 and 29 percent of Own Source Revenue. The current tax rate is 11 percent. Section 11 of the Social Services and Education Tax Act provides for a variety of tax exemptions. Exemptions have been introduced for various reasons including fulfillment of economic and social policy objectives and avoidance of double taxation.

Table 2.8 provides an interprovincial comparison of sales tax exemptions. It is evident from Table 2.8 that the sales tax exemptions offered in New Brunswick compare favorably with those offered in other jurisdictions. One of the most significant concessions offered in New Brunswick, which is not offered elsewhere, is that clothing and footwear are completely exempt from tax. In all other taxing provinces (Alberta does not have a sales tax) some form of limitation is imposed on this exemption. Similarly, New Brunswick exempts electricity, the only other provinces to fully exempt electricity are Prince Edward Island and Ontario.

Offering exemptions is not without financial consequences. Table 2.9 presents an approximate estimate of the value of the exemptions offered by the Province. These are only provided to illustrate that exemption are not without cost. This table shows that the total value of sales tax exemptions exceeds $400 million. Not all services are part of the sales tax base, however, if they became subject to the sales tax the value of exemptions would be considerably higher.

TABLE 2.8
INTERPROVINCIAL COMPARISON OF SALES TAX EXEMPTIONS[1]*
January 1, 1992

Retail Sales Tax (%)	N.B. 11	NS[4] 12	P.E.I. 10	N.S. 10	Que.[21] 8	Ont. 7	Man. 7	Sask. 7	B.C. 6
Commodity Class									
1) Food (Home Consumption)	E	E[21]	E	E	T	E	E	E	
2) Prescription Drugs	E	E[21]	E	E	E	E	E	E	E
3)Electricity	E	T[2]	E	T	T	E	T[4]	E[5]	T[6]
4) Firewood	E	E	E	E	T	E	[illegible]	E	E
5) Water (Health Purposes)	E	E	E	E	T	E	E	E	E
6) Classroom Supplies	E	T	E	E	T	T	T	T	E
7) Restaurant Meals	E < $1.00	T[21]	T	E < $2.00	T	E < $4.00	E < $6.00	E	E
8) Footwear	E	E Children[7]	E < $100	E < $100	T	E < $30	E Children	E < $300	E Children
9) Clothing	E	E Children[8]	E < $100	E < $100	T	E Children	E Children	E < $300	E Children
10) Farming Equipment	E	E	E	E	T[3]	E	E	E[19]	E
11) Fishing Equipment	E	E	E	E	T[3]	E	E	T[9]	T
12)Production Machinery	E	E	E	E[10]	T[3]	T	T	T	
13) Goods Purchased for Production by a Utility	E	T	E	E	T[3]	T[22]	T	T	T
14) Clay, Sand and Gravel	E	T	E	E	T	E	E	T[11]	T
15) a) Telephone Equipment	E	T	T	T	T	T	T	T	T
b) Telephone Service	T	T	T	T	T	T	T	T	T[12]
16) Thermal Insulation	T	E	T	T	T	T	T	T	E
17) Books	E	E	E	E	T[24]	E	E	E	E
18) Drycleaning	T	T	T	E	E	E	T	E	E
19) Biologicals and Medicaments	E	E	T	E	E	E	E	E	E
20) Second Hand Mobile Homes	E	T	E	E	E	E	T[13]	E[14]	E
21) Liquor	T	T	T	T	T	T[15]	T	T[16]	T[17]
22) Railway Rolling Stock	T	T	T	T	T	T	T	T	T
23) Plants, Shrubs and Trees (Other Than Food Sources)	E	T	T	E	T	T	T	E[20]	T
24) Goods Purchased by Indians	E	T[18]	E	T[18]	T	T[18]	T[18]	E	T[18]
25) Taxable Services:									
a) Transient Accommodations	T	T	T	T	T	T[23]	T	T	T
b) Labour Provided to Install, Repair, Maintain Tangible Property	T	T	T	T	E	T	T	E	E
26) Tobacco Products	T	T	E	T	T	T	T	E	E
27) Building Materials	T	T	T	T	T	T	T	T	T

E: Exempt; T: Taxable

*NOTE: Comparison based on New Brunswick's exemption structure. Additional exemptions may apply in other provinces.

1 Alberta has no sales tax, but a hotel room tax of 5 percent.
2 Exempt for domestic, manufacturing and agricultural used only.
3 The initial purchase is taxable, however, a business will receive an input tax credit.
4 Exempts for domestic heating only, cooking and lighting are taxable.
5 Exempt for residential and farm uses and public skating rinks, curling rinks and swimming pools.
6 Exempt for residential purposes only; includes heating, lighting and cooking.
7 Adult footwear exempt per item up to $125 for areas along Quebec, Newfoundland border.
8 Adult clothing exempt per item up to $500 for areas along Quebec, Newfoundland border. Exemption only applies to standard children's sizes.
9 Except fishing nets.
10 Not exempt if equipment is used in production/processing of non-renewable resources (4 percent rate applies); fork lifts are taxable.
11 Except clay and unprocessed materials.
12 Only residential telephone service is exempt.
13 In Manitoba 50 percent of the tax on second hand mobile homes is refunded to home purchasers.
14 In Saskatchewan, second hand mobile homes, second hand furniture, and second hand automobiles are exempt from RST.
15 A 12 percent rate applies to purchases from retail stores, while a 10 percent rate applies on purchases in licensed outlets.
16 In Saskatchewan, a 10 percent sales tax rate applies to liquor.
17 In British Columbia a 10 percent sales tax applies to the sale of alcohol including draught beer.
18 Unless delivered to reserve or purchased on reserve.
19 Implements and services are exempt.
20 Potted plants are taxable.
21 Same as GST definition except for services which will be taxed in July 1992. In Quebec, exemptions are revised according to the Appendix to the Minister's Statement of August 30, 1990.
22 Exempt for small suppliers other than Ontario Hydro.
23 Taxable at 5 percent.
24 The tax will be refunded by the retailer.

TABLE 2.9
ESTIMATED VALUE OF SALES TAX EXEMPTIONS
($Millions)
1991

Household Sector	Value ($M)	Percent of Total Exemptions	Percent of Sales Tax Revenue
Food for Home Consumption	122.9	29.0	18.4
Water, Fuel and Electricity	45.3	10.7	6.8
Fertilizer, Lime and Shrubs	2.0	0.5	0.3
Gasoline and Motive Fuel - Non-Commercial	36.0	8.5	5.4
Prescription Drugs	16.6	3.9	2.5
Clothing	46.0	10.8	6.9
Footwear	9.0	2.1	1.3
Prepared Meals	3.0	0.6	0.4
Funeral Caskets	0.5	0.1	0.1
Status Indians Exemption	1.7	0.4	0.3
Textbooks and Classroom Supplies	2.5	0.6	0.4
Magazines, Periodicals and Newspapers	3.0	0.7	0.4
Paperback and Hard Cover Books	1.5	0.4	0.3
Wood Stoves	0.3	0.0	0.0
Mobile and Used Mobile Homes	0.6	0.1	0.1
Miscellaneous	0.4	0.1	0.1
Total: Household Sector	291.3	68.8	43.6
Non-Household Sector			
New Capital:			
Farm Machinery & Equipment	2.7	0.6	0.4
Fishing Machinery & Equipment	0.9	0.2	0.1
Mining Machinery & Equipment	7.3	1.7	1.1
Logging Machinery & Equipment	1.2	0.3	0.2
Manufacturing Machinery & Equipment	31.2	7.4	4.7
Equipment Used in telephone Service	6.0	1.4	0.9
Equipment Used in the Generation of Electricity	13.9	3.3	2.1
Exemption to Service Charges	14.1	3.3	2.1
Gasoline & Motive Fuel - Commercial	23.1	5.5	3.5
Electricity (Excluding Residential)	22.3	5.3	3.3
Clay, Sand and Gravel	2.0	0.5	0.3
Fertilizer and Feed	6.2	1.5	0.9
Miscellaneous (Explosives Used in Mining, Export Products, Etc.)	1.3	0.3	0.2
Total: Non-Household Sector	132.2	31.2	19.8
TOTAL VALUE OF EXEMPTIONS	423.5	100.0	63.5

At 11 percent New Brunswick's sales tax rate is the second highest in the country. Table 2.10 presents an interjurisdictional comparison of sales tax rates.

TABLE 2.10
INTERJURISDICTIONAL COMPARISON OF SALES TAX RATES

Jurisdiction	Federal Rate	Provincial Rate	Combined Rate
Newfoundland	7	12	19.84
Prince Edward Island	7	10	17.70
Nova Scotia	7	10	17.70
New Brunswick	7	11	18.77
Quebec	7	8	15.56
Ontario	7	8	15.00
Manitoba	7	7	14.00
Saskatchewan	7	7	14.00
Alberta	7	0	7.00
British Columbia	7	6	13.00
Maine	0	6	6.00

SOURCE: New Brunswick Department of Finance.

The 7 percent federal Goods and Services Tax (GST) was implemented on January 1, 1991. New Brunswick, along with Newfoundland, Nova Scotia, Prince Edward Island, and Quebec apply their provincial sales tax to the retail price including the GST. The other provinces apply their tax to the price excluding the GST.

To date Quebec is the only province to harmonize its sales tax system with the GST. Quebec recently delayed full harmonization (its base for goods is now harmonized and is the same as the federal GST base) until July 1, 1992. Saskatchewan had announced harmonization but reversed its decision after the change in government in 1991. Prince Edward Island also had announced it would harmonize with the GST but after public discussions decided not to pursue this option.

In the provinces which apply their sales tax rates to the price of a good including the GST the combined federal-provincial sales tax rate is higher than a simple addition of the two statutory rates. In New Brunswick the combined effective sales tax rate is 18.77 percent which is the second highest combined rate in Canada.

Table 2.11 presents historical revenue data for the retail sales tax. This table shows that the sales tax has represented between 20 and 29 percent of Own Source Revenues for the past decade. Some of the fluctuation in sales tax revenues is due to changing economic circumstances.

TABLE 2.11
HISTORICAL REVENUE DATA
SALES TAX
($000)

Year	Revenue	Percent Change	Percent of Own Source Revenue	Percent of Gross Ordinary Revenue
1980-81	200,191.0	3.0	22.9	13.0
1981-82	213,611.7	6.7	21.8	12.1
1982-83	231,218.0	8.2	22.1	11.9
1983-84	327,648.8	41.7	26.2	14.8
1984-85	371,390.5	13.4	27.0	15.6
1985-86	428,951.9	15.5	27.9	16.1
1986-87	465,336.0	8.5	28.7	16.8
1987-88	513,593.4	10.4	28.5	17.0
1988-89	588,150.3	14.5	29.1	17.7
1989-90	623,627.6	6.0	28.6	17.4
1990-91	624,172.0	0.1	27.6	16.9
1991-92*	630,000.0	0.9	26.4	16.8

SOURCE: New Brunswick Department of Finance
*Second Quarter Estimate 1991-92

GASOLINE AND MOTIVE FUEL TAXES

The gasoline tax rate of 12.7 cents per litre is composed of a general rate of 10.4 cents per litre plus the Arterial Highways Trust Fund of 2.3 cents per litre. The diesel fuel rate of 13.7 cents per litre is comprised of a standard rate of 10.0 cents per litre and a 3.7 cent per litre tax for the Arterial Highways Trust Fund. In addition the Province levies a tax on propane at 6.7 cents per litre, a tax on locomotive fuel at 4.3 cents per litre, and a tax on aviation fuel of 2.5 cents per litre.

There are a number of specific exemptions for gasoline and diesel fuel. Under certain circumstances there are exemptions for forestry, fishing, farming, mining, manufacturing, international commercial air cargo flights, heating and lighting and commercial shipping. The first six exemptions are offered as economic development incentives. The heating and lighting exemptions are in place because these are viewed as necessities. The commercial shipping exemption recognizes the Province's Constitutional limits to its taxing powers.

In general the exemptions from the gasoline and motive fuel tax are worth between $55 and $60 million with the single most important exemption being for fuel used for heating purposes.

From 1981 to April 1991 the gasoline tax was an ad valorem tax based on retail price and was adjusted quarterly in response to price surveys. As of April 1, 1991 the gasoline tax rate has been expressed in legislation as a specific tax in cents per litre. The tax rate can now only be changed by an amendment to the legislation. Only Prince Edward Island, Nova Scotia, and British Columbia continue to use ad valorem taxes on gasoline. The rest of the provinces like New Brunswick have volume based tax rates.

The Second Quarter estimate for 1991-92 puts revenue from the gasoline and motive fuel tax at $129.2 million. This is 5.3 percent of own source revenue. Table 2.12 shows the tax revenue from this source for the 1980 to 1991 period.

TABLE 2.12
HISTORICAL REVENUE DATA
GASOLINE AND MOTIVE FUEL TAXES**
($000)

Year	Revenue	Percent Change	Percent of Own Source Revenue	Percent of Gross Ordinary Revenue
1980-81	62,722.9	2.5	7.2	4.1
1981-82	69,784.2	11.3	7.1	3.9
1982-83	78,163.1	12.0	7.5	4.0
1983-84	99,252.4	27.0	7.1	4.5
1984-85	105,070.9	5.9	7.6	4.4
1985-86	113,305.1	7.8	7.4	4.3
1986-87	106,461.7	-6.0	6.6	3.8
1987-88	105,634.2	-0.8	5.9	3.5
1988-89	108,300.2	2.5	5.4	3.3
1989-90	109,484.1	1.1	5.0	3.1
1990-91	114,920.3	5.0	5.1	3.1
1991-92*	129,200.0	12.4	5.3	3.3

SOURCE: New Brunswick Department of Finance
*Second Quarter Estimate 1991-92
**Excluding Highway Trust Fund.

Table 2.13 presents the provincial gasoline tax rates expressed as cents per litre. Despite the Arterial Highway Trust Fund which represents 2.3 cents per litre for gasoline and 3.7 cents per litre for diesel there are three other provinces (Quebec, Ontario and Newfoundland) which have higher taxes on gasoline and three (Newfoundland, Nova Scotia and Ontario) which have higher taxes on diesel fuel. Without the Trust Fund levy New Brunswick would have the fourth lowest tax rate on gasoline (10.4 cents/liter) behind Alberta (9.0), British Columbia (9.76), and Saskatchewan (10.0). In the absence of the Trust Fund New Brunswick would be tied for the second lowest tax rate on diesel (10.0 cents per litre) behind Alberta (9.0) and tied with Saskatchewan (10.0).

TABLE 2.13
COMPARATIVE GASOLINE AND MOTIVE FUEL TAX RATES AS OF JANUARY 1, 1992

Cents Per Litre

Province	Gasoline[1]	Diesel
Newfoundland	13.7	15.6
Prince Edward Island	11.8	11.8
Nova Scotia	12.3	14.3
New Brunswick[2]	12.7	13.7
Quebec	14.5	12.6
Ontario	14.7	14.3
Manitoba	10.5	10.9
Saskatchewan	10.0	10.0
Alberta	9.0	9.0
British Columbia	9.76	10.2

[1] Regular Unleaded.

[2] These rates include the Arterial Highway Trust Fund of 2.3 cents per litre for gasoline and 3.7 cents per litre for diesel.

SOURCE: New Brunswick Department of Finance

REAL PROPERTY TAX

New Brunswick is quite different from most provinces with regards to the property tax and the provincial-municipal fiscal relationship. In New Brunswick, real property taxes are levied by both the Province and municipalities, although the Province has responsibility for real property assessment and tax collection for itself and municipalities. A special levy of 2¢ per $100 of assessment is added to recover part of the cost to the Province of providing assessment services for municipalities.

In New Brunswick the municipal property tax revenues appear as Own Source Revenue for the Province. There is, however, a corresponding expenditure item, so in effect municipal property taxes are merely a pass-through revenue and do not affect the Province's overall financial position.

There are two classes of taxable real property in New Brunswick; residential and non-residential. Residential property at the provincial level is taxed at a rate of $1.50 per $100 of assessment. However, all owner-occupied residential properties receive a tax credit against provincial tax. If the property is located in a municipality, the credit equals the full amount of provincial tax payable. If the property is located outside a municipality, a provincial credit of $0.85 per $100 applies, for a net provincial tax of $0.65 per $100 of assessment. This owner-occupied residential property tax credit is worth approximately $110 to $120 million in foregone provincial tax revenues.

Since January 1, 1983 non-residential property has been taxed at a provincial rate of $2.25 per $100 of assessment. Included in this classification are industrial, commercial and government properties other than those used for residential purposes.

The municipalities similarly specify a tax rate for the residential component. The non-residential tax rate is defined in legislation in fixed relationship to the residential rate. The non-residential rate is 1.5 times the residential rate.

The Province, as well as determining the valuation of real property, also determines what is excluded from the tax base. There are limited exemptions specified in the Assessment Act, which is administered by the Geographic Information Corporation. In addition to exemptions there are specific provisions for farmland, and forest lands. Farmland is assessed on the basis of its use as farmland. In addition, under provisions of the Real Property Tax Act it is possible to get a complete deferral of provincial property tax on registered farmland. Freehold timberland is assessed by statute at $80.00 per hectare. Farm woodlots are similarly assessed by statute at a value to yield a combined provincial-municipal tax of $0.80 per hectare.

There are only three provinces in which the property tax is a provincial revenue source: Prince Edward Island, British Columbia and New Brunswick. While only these three provinces actually use the property tax base as a direct source of revenue, all provinces have legislation authorizing and limiting the forms of local property taxation.

Assessment procedures, the method of establishing tax rates, exemptions, concessions and relief from property tax vary considerably across Canada. This renders virtually impossible any attempt to make meaningful interprovincial comparisons on the basis of provincial and municipal data. Nevertheless, according to a recent survey of property taxes conducted by the Directors of Property Assessment, New Brunswick compares favorably in most property categories. For residential property New Brunswick residents in general pay less than residents of all provinces except Prince Edward Island and Newfoundland. In the non-residential category property taxes on a motor hotel and a gas station, tend to be similar to the average of all provinces. Taxes on a warehouse tend be low in New Brunswick, while taxes on a fast food restaurant tend to be above average.

The 1991-92 Second Quarter estimates show municipal property tax of $197.0 million, or 8.1 percent of own source revenue. Provincial property tax is estimated at $202.8 million or 8.3 percent of own source revenue.

Tables 2.14 and 2.15 present historical revenue data for the provincial and municipal real property taxes respectively. Provincial property taxes have consistently represented between 7 and 9 percent of Own Source Revenue since 1980.

TABLE 2.14
HISTORICAL REVENUE DATA
PROVINCIAL REAL PROPERTY TAX
($000)

Year	Revenue	Percent Change	Percent of Own Source Revenue	Percent of Gross Ordinary Revenue
1980-81	75,819.6	11.7	8.7	4.9
1981-82	78,626.7	3.7	8.0	4.4
1982-83	84,829.2	7.9	8.1	4.4
1983-84	89,597.6	5.6	7.2	4.0
1984-85	114,575.0	27.9	8.3	4.8
1985-86	126,757.6	10.6	8.3	4.8
1986-87	138,287.7	9.1	8.5	5.0
1987-88	137,047.6	-0.9	7.6	4.5
1988-89	154,733.3	12.9	7.6	4.7
1989-90	167,158.7	8.0	7.7	4.7
1990-91	185,918.0	11.2	8.2	5.0
1991-92*	202,800.0	9.1	8.3	5.2

SOURCE: New Brunswick Department of Finance,
*Second Quarter Estimate 1991-92

TABLE 2.15
HISTORICAL REVENUE DATA
MUNICIPAL REAL PROPERTY TAX
($000)

Year	Revenue	Percent Change	Percent of Own Source Revenue	Percent of Gross Ordinary Revenue
1980-81	72,933.3	12.8	8.3	4.7
1981-82	82,228.9	12.7	8.4	4.6
1982-83	93,544.9	13.8	8.9	4.8
1983-84	94,216.1	0.7	7.5	4.3
1984-85	91,446.5	-2.9	6.6	3.9
1985-86	102,131.1	11.7	6.7	3.8
1986-87	113,758.2	11.4	7.0	4.1
1987-88	127,206.9	11.8	7.0	4.2
1988-89	140,588.4	10.5	7.0	4.2
1989-90	158,827.6	13.0	7.3	4.4
1990-91	178,021.8	12.1	7.9	4.8
1991-92*	197,000.0	10.7	8.1	5.0

SOURCE: New Brunswick Department of Finance,
*Second Quarter Estimate 1991-92

TOBACCO TAX

From 1981 to April 1991 the tobacco tax was an ad valorem tax based on price and was adjusted quarterly in response to a survey of prices. In April of 1991 the ad valorem tax was replaced with a specific legislated per unit tax. Currently the Province levies a tax of 9.38 cents per cigarette, 7.04 cents per gram of fine cut tobacco and a 7.97 cents per stick tax on tobacco sticks. The tax on cigars is 100 percent of the selling price.

New Brunswick's tobacco tax rate is the second highest in the nation behind British Columbia. However, in British Columbia the sales tax does not apply to the purchase price of tobacco so effectively New Brunswick remains the highest tax jurisdiction for cigarettes. Table 2.16 provides an interprovincial comparison of tobacco taxes.

The tobacco tax is estimated to generate $70.0 million in fiscal 1991-92. This represents 2.9 percent of own source revenue. Table 2.17 presents a historical revenue series for the tobacco tax. It is evident from this table that tobacco tax revenues peaked in 1989-90.

TABLE 2.16
COMPARATIVE TOBACCO TAX RATES

Province	Tax Per Cigarettes (Cents)	Sales Tax Applied	Pre-Portioned Stick	Fine Cut (¢/Gram)	Cigars (% of Selling Price)
Nfld.	6.78	Yes	6.78*	4.52	125%
P.E.I.	9.00	No	7.10*	5.20	125%
N. S.	6.80	Yes	6.00**	5.25	50%
N. B.	9.38	Yes	7.97*	7.04	100%
Que.	6.88	Yes	7.35**	2.92	75%
Ont.	6.50	Yes	6.50*	6.50	40%
Man.	8.00	Yes	8.00*	5.30	Schedule of Rates
Sask.	6.68	Yes	6.68*	4.40	85%***
Alta.	7.00	No	7.00*	4.00	80%
B. C.	9.40	No	7.20**	7.20	Schedule of Rates

*Cents per stick/cigarette
**Cents per gram

***In Saskatchewan, rates are 17 cents for cigars less than 20 cents, 51 cents for those 41-60 cents, and 85 percent for those > 60 cents.

TABLE 2.17
HISTORICAL REVENUE DATA
TOBACCO TAX
($000)

Year	Revenue	Percent Change	Percent of Own Source Revenue	Percent of Gross Ordinary Revenue
1980-81	19,401.6	6.6	2.2	1.3
1981-82	27,309.2	40.8	2.8	1.5
1982-83	31,812.4	16.5	3.0	1.6
1983-84	44,551.3	40.0	3.6	2.0
1984-85	47,225.2	6.0	3.4	2.0
1985-86	53,623.1	13.5	3.5	2.0
1986-87	59,633.5	11.2	3.7	2.2
1987-88	61,913.8	3.8	3.4	2.0
1988-89	61,084.8	-1.3	3.0	1.8
1989-90	74,145.9	21.4	3.4	2.1
1990-91	73,418.9	-1.0	3.2	2.0
1991-92*	70,000.0	-4.7	2.9	1.9

SOURCE: New Brunswick Department of Finance,
*Second Quarter Estimate 1991-92

INSURANCE PREMIUM TAX

Under the authority of the Premium Tax Act insurance companies are required to pay a tax based on gross premiums minus any dividends paid or credited to policy holders as well as any premiums returned.

Two rates of tax apply:

- 2 percent for accident, life and sickness ; and
- 3 percent for other types of insurance.

The insurance premium tax produced approximately $18.3 million in 1991-92. Table 2.18 provides historical revenue data. Other provinces (Table 2.19) have taxes similar to the insurance premium tax and tax rates are generally comparable with those levied in New Brunswick.

TABLE 2.18
HISTORICAL REVENUE DATA
INSURANCE PREMIUM TAX
($000)

Year	Revenue	Percent Change	Percent of Own Source Revenue	Percent of Gross Ordinary Revenue
1980-81	6,778.6	14.8	0.8	0.4
1981-82	7,500.4	10.6	0.8	0.4
1982-83	7,681.8	2.4	0.7	0.4
1983-84	8,921.8	16.1	0.7	0.4
1984-85	11,802.4	32.3	0.9	0.5
1985-86	10,388.2	-12.0	0.7	0.4
1986-87	12,609.4	21.4	0.8	0.5
1987-88	13,671.6	8.4	0.8	0.5
1988-89	14,596.0	6.8	0.7	0.4
1989-90	15,133.4	3.7	0.7	0.4
1990-91	15,309.3	1.2	0.7	0.4
1991-92*	18,300.0	19.2	0.8	0.5

SOURCE: New Brunswick Department of Finance,
*Second Quarter Estimate 1991-92

TABLE 2.19

COMPARISON OF INSURANCE PREMIUM TAX RATES

Province	Accident, Life, Sickness (%)	Others (%)
Newfoundland	4	4
Nova Scotia	3	4
Prince Edward Island	3	3
New Brunswick	2	3
Quebec[1]	2	3
Ontario	2	3
Manitoba	2	3
Saskatchewan	2	3
Alberta	2	3
British Columbia	2	3

[1]Sales tax applies to the value of premiums paid.

SOURCE: New Brunswick Department of Finance

METALLIC MINERALS TAX

The Metallic Minerals Tax Act is administered by the Minister of Natural Resources. Under this tax mine operators are required to pay a tax equal to:

- 2 percent of net mine revenue; and
- 16 percent of net profits in excess of $100,000.

Simply defined net mine revenue is gross revenue minus transportation costs, handling costs and processing allowances. To get to net profits there are further deductions relating to exploration, depreciation, administrative costs, deduction in lieu of interest payments, the 2 percent tax and the processing allowances.

In addition to being a revenue measure, the metallic minerals tax ensures that the Province is compensated for removal of its natural resources.

New mines are exempt from the 2 percent royalty tax on their first two years of operation. This furthers the Government's economic development objectives by encouraging development of new mines.

This tax generated $700,000 in 1991-92. The metallic minerals tax is highly cyclical due to world commodity prices and fluctuations in world demand. Table 2.20 provides historical data. It is clear that revenues from this source are generally in the $2 to $4 million range.

TABLE 2.20
HISTORICAL REVENUE DATA
METALLIC MINERALS TAX
($000)

Year	Revenue	Percent Change	Percent of Own Source Revenue	Percent of Gross Ordinary Revenue
1980-81	7,563.6	-25.9	0.9	0.5
1981-82	7,198.2	-4.8	0.7	0.4
1982-83	4,854.9	-32.6	0.5	0.2
1983-84	4,084.6	-15.9	0.3	0.2
1984-85	4,831.6	18.3	0.4	0.2
1985-86	1,157.8	-76.0	0.1	0.0
1986-87	1,509.4	30.4	0.1	0.1
1987-88	2,060.8	36.5	0.1	0.1
1988-89	3,271.0	58.7	0.2	0.1
1989-90	3,187.5	-2.6	0.1	0.1
1990-91	4,259.9	33.6	0.2	0.1
1991-92*	700.0	-83.6	0.0	0.0

SOURCE: New Brunswick Department of Finance,
*Second Quarter Estimate 1991-92

PROPERTY TRANSFER TAX

Every person or company who registers a deed is subject to the property transfer tax. This tax is calculated at the rate of one-quarter of one percent of the value of the transaction or the assessed value of the property, whichever is greater. The property transfer tax was introduced in the 1983-84 Budget. It is estimated to be worth $2.8 million or 0.1 percent of Own Source Revenue in 1991-92.

There are a number of exemptions from this tax. These exemptions are offered to further administrative efficiency and to ensure that non-arm's length transactions by persons as well as charitable donations are excluded from tax.

Nova Scotia, Quebec and Ontario provide for such a tax at a variety of rates up to 1 percent. Most other provinces levy a fee that varies according to the value of the property transaction in question. In many cases, this is a municipal tax.

Table 2.21 presents a historical revenue series for the property transfer tax.

TABLE 2.21
HISTORICAL REVENUE DATA
PROPERTY TRANSFER TAX
($000)

Year	Revenue	Percent Change	Percent of Own Source Revenue	Percent of Gross Ordinary Revenue
1983-84	1,197.6	--	0.10	0.05
1984-85	1,988.2	66.0	0.14	0.08
1985-86	1,994.8	0.3	0.13	0.07
1986-87	2,180.6	9.3	0.13	0.08
1987-88	2,445.3	12.1	0.14	0.08
1988-89	2,574.9	5.3	0.13	0.08
1989-90	2,751.8	6.9	0.13	0.08
1990-91	2,342.8	-14.9	0.10	0.06
1991-92*	2,800.0	19.5	0.12	0.07

SOURCE: New Brunswick Department of Finance,
*Second Quarter Estimate 1991-92

FINANCIAL CORPORATION CAPITAL TAX

Banks, trust and loan companies are subject to the financial corporation capital tax which is calculated at the rate of 3 percent of the paid-up capital stock, corporate reserves, surpluses, and retained earnings of certain financial corporations. A $10 million deduction is taken off the company's total Canadian capital tax base to ensure that only large financial corporations are affected by the tax.

Companies not subject to the capital tax are:

- Credit Unions and Caisse Populaires;
- Finance Companies;
- Non-Deposit Accepting Financial Companies; and
- Non-Financial Institutions.

This tax was introduced with the 1987-88 Budget. The rate has since increased from 2 percent to 3 percent.

The 1991-92 Second Quarter estimate is $9.5 million or 0.4 percent of Own Source Revenue. Table 2.22 presents historical revenues for the Financial Corporation Capital Tax.

TABLE 2.22
HISTORICAL REVENUE DATA
FINANCIAL CORPORATION CAPITAL TAX
($000)

Year	Revenue	Percent Change	Percent of Own Source Revenue	Percent of Gross Ordinary Revenue
1987-88	4,191.1	--	0.2	0.1
1988-89	7,402.5	76.6	0.4	0.2
1989-90	8,625.4	16.5	0.4	0.2
1990-91	9,421.5	9.2	0.4	0.3
1991-92*	9,500.0	0.8	0.4	0.3

SOURCE: New Brunswick Department of Finance,
*Second Quarter Estimate 1991-92.

There are six provinces which have capital tax rates for financial institutions of 3 percent. Alberta and British Columbia tax at a 2 percent rate. Quebec, Ontario, Manitoba and Saskatchewan also levy a broad based corporate capital tax on non-financial corporations. Table 2.23 presents an interprovincial comparison of Corporation Capital Tax rates.

TABLE 2.23
TAX RATES - CORPORATION CAPITAL TAX
% of Taxable Paid-Up Capital

Province	Non-Financial Corporations	Financial Corporations
Newfoundland	--	3
Prince Edward Island	--	3
Nova Scotia	--	3
New Brunswick	--	3
Quebec	0.56	1.15
Ontario	.3	1
Manitoba	.3/.5	3
Saskatchewan	0.6	3
Alberta	--	2
British Columbia	--	2

SECTION III
CURRENT TAX ISSUES

Taxes and user charges are the most straightforward and important means of transferring funds from private hands to government spending programs. Individuals often tend to look at government programs as "free services" but they are not. Government programs and services must be paid for with government revenues.

The question then becomes how best to raise the required revenue to finance the public sector. When considering taxation there are two basic questions that are important:

- what are the effects of taxation on the economy (efficiency); and
- is the tax system fair (equity).

There is no clear answer to either of these questions but tax systems are constantly being evaluated with these two questions in mind.

In general taxes interfere with economic efficiency, and any tax system will have some impact on overall economic growth and expansion. To ensure that the tax system does not unduly interfere with efficiency, in most countries including Canada, there is a continuing search for an overall tax structure that will raise revenue, but at the same time minimize the impact of the tax system on:

- saving and investment;
- research and innovation; and
- work and risk taking.

A tax system designed primarily to promote economic growth, or at least designed to minimize the effect of taxation on economic growth, will tend to keep considerations such as the need for investment, innovation, work incentives, and risk taking front and center.

The problem or challenge however is that some of the features in a tax system which may be of primary importance in terms of economic growth and efficiency may run counter to the notion of fairness and equity in the tax system. Fairness and equity in the tax system is taken to mean that individuals and companies in similar circumstances are treated equally by the tax system, and that those who are "better off" than others should make a larger contribution to the public sector.

In Canada it is generally accepted that the tax system should be equitable as well as conducive to economic growth. As a result there have been a number of features that have been built into the tax system to enhance efficiency and improve the fairness of the system.

At times issues arise which have significant repercussion for the tax system of any jurisdiction, and the 1990's are no exception. Currently there are two key issues which have both long and short run implications for the Province's tax structure. These are:

- The Province's reliance on consumption taxes; and
- The question of equity.

THE PROVINCE'S RELIANCE ON CONSUMPTION TAXES

Table 3.1 presents an interprovincial comparison of selected taxes. It is clear that for the most part New Brunswick's basic tax structure is similar to those found in other provinces. The two notable exceptions are that New Brunswick does not utilize several taxes commonly used in other provinces such as flat taxes on net income, payroll taxes, hospital insurance premiums and broadly based capital taxes. The second difference is that, partly due to the fact that the above noted tax sources are not utilized, New Brunswick relies more heavily on consumption taxes.

TABLE 3.1

INTERPROVINCIAL COMPARISON OF SELECTED TAXES

JANUARY 1, 1992

	Nfld	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.
1) PERSONAL INCOME (Percent of Basic Federal Tax)	62	59.5	59.5	60	grad.[1]	53	52	50	46.5	51.5
Flat Tax on Net Income	–	–	–	–	–	–	2	2	–	–
High Income Surtax on Net Income	–	–	–	–	–	–	2	–	–	–
Flat Tax on Taxable Income	–	–	–	–	–	–	–	–	0.5	–
Surtaxes on Provincial Income Tax (Various Limits, See Footnote)	–	10	10	8	–	14	–	15	8	10
2) CORPORATION INCOME (Percent of Taxable Income)										
General Rate/Manufacturing and Processing	17	15	16	17	6.9	15.5	17	16	15.5/9	15
Small Business Rate/Manufacturing and Processing	10	10	10	9	3.75	10	10	10	6/0	9
3) CORPORATE CAPITAL (Percent of Taxable Paid-Up Capital)										
Non-Financial Corporations	–	–	–	–	0.56	0.3	0.3/0.5	0.6	–	–
Trust Companies	3.0	3.0	3.0	3.0	1.15	1.0	3.0	3.0	2.0	2.0
Banks	3.0	3.0	3.0	3.0	1.15	1.0	3.0	3.0	2.0	2.0
4) RETAIL SALES GENERAL RATE (Percent)	12	10	10	11	8	8	7	7	–	6
Relation to GST[5]	T	T	T	T	T	S	S	S	–	S
5) GASOLINE										
Percent of Retail Price	n/a	23	24.5	n/a	n/a	n/a	n/a	n/a	n/a	22.5
Cents Per Litre (Regular Unleaded)	13.7	11.7	12.3	12.7[2]	14.5	14.7	10.5	10.0	9.0	8.82
6) DIESEL FUEL										
Percent of Retail Price	n/a	26	31.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Cents Per Litre	15.6	11.7	14.3	13.7[3]	12.6	14.3	10.9	10.0	9.0	9.26
7) TOBACCO										
Cents Per Cigarette	6.78[4]	9.0	6.8[4]	9.36[4]	6.86[4]	6.5[4]	8.0[4]	6.68[4]	7.0	9.4
8) RESIDENTIAL PROPERTY TAX (%) (1990 Royal LePage Survey)	1.0	1.3	1.4	1.2	1.8	1.1	n/a	2.1	1.3	1.2
9) INSURANCE PREMIUMS (Percent)	4	3	3	2-3	2-3	2-3	2-3	2-3	2-3	2-3
10) HOSPITAL AND HEALTH INSURANCE PREMIUMS (Maximum Monthly Rate)										
Single	–	–	–	–	–	–	–	–	26	35
Family of 2	–	–	–	–	–	–	–	–	52	62
Family of 3	–	–	–	–	–	–	–	–	52	70
11) PAYROLL TAXES (Percent) - Employers with Payroll										
Under $300,000	–	–	–	–	3.75	.98	–	–	–	–
$300,000 to $600,000	1.5	–	–	–	3.75	grad.[1]	–	–	–	–
$600,000 to $1.2 million	1.5	–	–	–	3.75	grad.[1]	grad.[1]	–	–	–
Over $1.2 million	1.5	–	–	–	3.75	1.95	2.25	–	–	–

[1] Graduated rate.

[2] The 12.7 cents per litre is comprised of 10.4 cents per litre for the standard rate and 2.3 cents per litre for the Highway Trust Fund.

[3] The 13.7 cents per litre is comprised of 10.0 cents per litre for the standard rate and 3.7 cents per litre for the Highway Trust Fund.

[4] Tobacco is also subject to the retail sales tax.

[5] S: GST and PST applied separately to the same base. T: PST applied to base plus GST.

While there is much about the existing tax system that makes sense, it is also clear that rationales behind some features of the current system are historical. It is also clear that judging whether a particular tax rate is too high or too low or whether one tax is "better" than another is difficult. The existing tax system is tightly woven into the fabric of the provincial economy. making cause and effect relationship between taxation and the economy difficult to understand and predict.

Table 3.2 presents a comparison of the degree to which each province relies on consumption taxes. It is clear that New Brunswick, like the other Atlantic Provinces, relies more heavily on consumption taxes than the rest of Canada. New Brunswick, however, has approximately 20 percent of its population within 60 kilometers of the border with Maine, which is a relatively low tax jurisdiction. This fact, combined with the federal government's increased penetration into the consumption tax field, means that New Brunswick will be forced to seek alternatives to its current tax structure.

TABLE 3.2
MAJOR TAX SOURCES AS A
PERCENT OF OWN SOURCE REVENUES
1991-92

Tax	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.
Personal Income Tax	24.3	25.5	35.7	28.2	39.4	38.1	28.3	21.5	23.9	29.4
Corporate Income Tax	2.5	3.0	3.1	3.5	1.6	5.1	1.5	1.6	6.4	3.7
General and Miscellaneous Sales Tax	29.5	21.1	24.1	25.6	19.5	18.7	15.4	11.1	0.2	14.5
Natural Resources Revenue	1.2	0.0	0.2	1.4	0.3	0.7	2.1	9.9	20.8	7.4
Interest Income	11.6	14.7	9.7	8.0	3.4	4.2	19.8	19.3	21.3	3.9
Other Own Source Revenues	30.9	35.9	27.2	33.3	35.8	33.2	32.8	36.6	27.5	41.1
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: FMS Data

EMERGENCE OF MAINE AS A COMPETITIVE JURISDICTION

The issue of cross border shopping has received significant coverage in the media over the last year. The Province recently released a discussion document on the issue and is seeking public input into potential solutions to this growing problem. It is clear that taxes play a role in the cross border shopping problem and several concerns were outlined in the cross border shopping paper. These include:

- lower sales tax;
- lower gasoline tax; and
- reduce or eliminate the 11 percent liquor licensing fee.

The following factors have substantially increased cross border shopping by New Brunswickers in the United States:

- the appreciation of the Canadian dollar since 1986;
- the Free Trade Agreement and its positive impact on personal spending in the United States;
- the removal of the 13.5 percent Manufacturers' Sales Tax on personal imports; and
- the tax incentive created by the GST to vacation and spend income on goods and services outside the country.

Capital, labor, and consumers have become much more mobile over the past decade or so. The federal government did not fully appreciate the mobility of consumers when it moved into the retail sales tax with the GST.

The increased reliance of the federal government on commodity taxes, the Province's heavy reliance on consumption taxes and the dramatic increase in cross border shopping has meant that New Brunswick must consider Maine as a competitive tax jurisdiction, just as it has neighboring provinces in the past. Therefore the tax mix and tax levels in New Brunswick must be designed, keeping not only Canadian Provinces in mind, but the Maine tax structure as well.

In this regard Table 3.3 presents a comparison of exemptions from sales tax in Maine and New Brunswick. It is clear that while Maine's sales tax rate is lower its exemptions are narrower. For example, Maine taxes clothing and footwear, electricity, telephone equipment, books and a number of other items not taxed in New Brunswick.

It is clear that a tax system which taxes people differently depending on where they spend their money distorts the market. The provincial sales tax worked reasonably well, as a consumption tax, until the recent appreciation of the Canadian dollar relative to the United States dollar, the Free Trade Agreement, and the replacement of the federal Manufacturers' Sales Tax with the GST. However, in the current context, the high sales tax rate is having an impact on consumers' choices of where to shop. New Brunswickers are choosing, for logical reasons, to shop in the United States.

To meet this challenge the Province does not have the luxury of simply lowering the sales tax and accepting lower revenues. If it is to continue to provide the type of services demanded from its citizens any revenue lost by lowering the sales tax would have to be made up elsewhere. Each point the sales tax is reduced for example, would require $55 - $60 million to be made up via an alternative tax.

There are a number of "alternatives" the Province could consider in trying to reduce its reliance on the sales tax. These are discussed in Section IV and are offered as examples only; they are not the only options available nor are they necessarily options the Government intends to pursue.

TABLE 3.3
MAINE - NEW BRUNSWICK COMPARISON OF SALES TAX EXEMPTIONS (January 1, 1993)

	Maine	New Brunswick
Retail Sales Tax (%)	6*	11
Commodity Class		
1) Food (Home Consumption)	E	E
2) Prescription Drugs	E	E
3) Electricity	E for residential less than 750 kwhs per month	E
4) Firewood	E	E
5) Water (Health Purposes)	E	E
6) Classroom Supplies	E	E
7) Restaurant Meals	T 7%	E < $1.00
8) Footwear	T	E
9) Clothing	T	E
10) Farming Equipment	E - depreciable machinery and equipment	E
11) Fishing Equipment	E - depreciable machinery and equipment	E
12) Production Machinery	E - fuel and electricity partially exempt	E
13) Goods Purchased for Production by a Utility	E	E
14) Clay, Sand and Gravel	T	E
15) a) Telephone Equipment	T	E
b) Telephone Service	T - interstate calls and yellow page ads exempt	T
16) Thermal Insulation	T	T
17) Books	T	E
18) Drycleaning	E	T
19) Biologicals and Medicaments	-	E
20) Second Hand Mobile Homes	E	E
21) Liquor	T 7%	T
22) Railway Rolling Stock	E if used for interstate commerce	T
23) Plants, Shrubs and Trees (Other Than Food Sources)	T	E
24) Goods Purchased by Indians	T	E
25) Taxable Services:		
a) Transient Accommodations	T	T
b) Labour Provided to Install, Repair, Maintain Tangible Property	E	T
26) Tobacco Products	T	T
27) Building Materials	T	T

E: Exempt; T: Taxable.
*Decreases to 5% on July 1, 1993.

THE QUESTION OF EQUITY

One important issue which has received significant attention over the last year is the concept of a minimum tax on individuals and corporations. The interest in a minimum tax stems partly from the perception that there are a large number of individuals and corporations who do not pay any tax to the Province, and partly to ensure that there is balance in the overall tax structure.

The data for the analysis in this Section was extracted from confidential data provided by Revenue Canada. Release of information on a group of less than 10 taxfilers is not permitted. Therefore, in some cases information has had to be aggregated to be presented in a public format such as this document. While this analysis has been based on a detailed examination of data for the 1988 taxation year, the conclusions and observations in the following would generally apply to subsequent years as well.

Analysis of Individuals

An analysis of the 1988 Taxation Statistics, show that there has been a substantial reduction in the number of non-taxable high-income filers in Canada since 1984.

TABLE 3.4
HIGH-INCOME NON-TAXABLE FILERS
CANADA 1984 - 1988

	1984	1985	1986	1987	1988
Filers with Income of $100,000 or More	84,321	104,680	118,880	132,520	181,440
Number of Non-Taxable Filers	1,830	1,531	630	590	640
Percentage of Non-Taxable Filers in Income Range	2.17%	1.46%	0.53%	0.45%	0.35%

Table 3.4 illustrates, that the number of high-income earners in Canada who did not pay tax declined by almost two-thirds from 1984 to 1988, despite more than a 200 percent increase in the number of taxfilers in this income range. As a result, the proportion of this income group who were non-taxable declined sharply from 2.17 percent in 1984 to 0.35 percent in 1988. The same trend is evident in New Brunswick, however, the data available to document this pattern for the Province is confidential and cannot be released.

In any particular year, there are legitimate reasons why a small fraction of high-income individuals might not pay tax; for example, a farmer who chooses to sell his farm will experience a one-time increase in income. It clearly would not be fair to completely tax in any one year, the full income generated from the sale of this lifetime investment.

In general high income taxfilers who do not pay any tax do not report wages and salaries as a significant source of income. Their major source of income varies but usually includes, capital gains, dividends, interest and investment income, or RRSP income, and in such cases these individuals have little or no taxable income.

There were 486,263 New Brunswickers who filed income tax returns in 1988. Of these 330,912 paid tax and 155,351 did not pay any tax. Of those New Brunswickers who paid no income tax in 1988, over 99 percent or 154,322 earned less than $20,000. Table 3.5 presents 1988 data on the number of returns by income class for New Brunswick. The table also shows that while 29 taxfilers having incomes of $70,000 or more paid no tax in 1988, over 8,400 taxfilers having incomes of $70,000 or more did pay tax.

In respect of high income taxfilers, there were over 4,000 residents of New Brunswick with incomes in excess of $100,000, and the proportion who did not pay any income tax to the Province is similar to the Canadian average, that is less than 1 percent.

TABLE 3.5

NEW BRUNSWICK PERSONAL INCOME TAX DISTRIBUTION

TOTAL, TAXABLE AND NON-TAXED RETURNS

1988

Income Group	Total Returns	Taxable Returns	Non-Taxed Returns
(-) or Nil	22,715	28	22,687
1 - 5,000	83,474	3,754	79,720
5,001 - 10,000	81,979	39,740	42,239
15,001 - 15,000	65,047	56,741	8,306
15,001 - 20,000	57,445	56,075	1,370
20,001 - 30,000	79,498	78,910	588
30,001 - 40,000	46,349	46,121	228
40,001 - 50,000	25,977	25,855	122
50,001 - 60,000	10,703	10,659	44
60,001 - 70,000	4,634	4,616	18
70,001 and Over	8,442	8,413	29
TOTAL	486,263	330,912	155,351

Table 3.6 presents selected data on the distribution of all tax returns. Those individuals earning over $100,000 represent less than one percent of total taxfilers, about 5 percent of total income and 8.5 percent of tax paid. The table clearly indicates that both average provincial tax paid, and provincial tax paid as a percent of total income, are significantly higher for those earning over $100,000 than for those earning less than that.

In assessing high income individuals who did not pay tax in 1988 they tended to have capital gains or investment income as their main source of income, they utilized capital gains exemptions, capital losses, carrying charges or some combination to reduce taxable income. Only a small portion had significant positive taxable income and they utilized tax credits for foreign tax paid, charity or gifts to the Crown to reduce tax payable.

In 1986 the federal government introduced the Alternative Minimum Tax. The purpose of this tax was to ensure that individuals utilizing tax preferences to reduce their tax payable were required to pay some tax. The Alternative Minimum Tax was amended in 1988 and since that time the number of high income individuals paying no tax has dropped significantly. As a party to the Canada\New Brunswick Tax Collection Agreement the Province also receives tax from this source.

Given the small number of individuals who paid no provincial income tax in 1988 and the emergence of the Alternative Minimum Tax for individuals it is not clear that the Province requires a minimum tax for individuals.

TABLE 3.6
DISTRIBUTIONS OF ALL RETURNS - NEW BRUNSWICK
SELECTED STATISTICS
1988

Income Range	Percent of Total Income	Percent of Taxfilers	Percent of Tax Paid	Average Provincial Tax Paid	Provincial Tax Paid as a Percent of Total Income
Loss or Nil	-0.07	4.67	0.00	0	0
1.00 - 5,000	2.48	17.17	0.00	0	0
5,000 - 10,000	7.31	16.86	1.31	170	1.11
10,000 - 15,000	9.82	13.38	5.27	467	3.34
15,000 - 20,000	12.69	11.81	9.92	883	4.87
20,000 - 30,000	22.23	16.35	20.79	1,421	5.83
30,000 - 40,000	17.85	9.53	21.18	2,562	7.36
40,000 - 50,000	12.44	5.34	17.02	3,767	8.52
50,000 - 100,000	10.49	4.06	16.01	5,959	9.49
100,000 - 125,000	0.98	0.27	1.59	11,365	10.17
125,000 - 150,000	0.68	0.16	1.22	15,565	11.20
150,000 - 200,000	0.91	0.19	1.66	19,516	11.49
200,000 - 250,000	0.46	0.08	0.83	24,900	11.22
250,000 and Over	1.83	0.11	3.18	56,062	10.86
TOTAL	100.00	100.00	100.00	1,650	6.22

ANALYSIS OF CORPORATIONS

There have been assertions that there are a number of profitable firms which do not pay corporate income tax to New Brunswick. This issue is examined below.

Table 3.7 provides information on the total number of firms in New Brunswick, the number paying tax and the number which did not pay tax. In 1988 there were 16,208 corporations which filed income tax returns for New Brunswick. Of these firms there were 7,110 or 43.9 percent which paid corporate income tax and 9,098 or 56.1 percent which did not pay corporate income tax to New Brunswick.

TABLE 3.7
CORPORATE INCOME TAX
NEW BRUNSWICK
1988

Gross eRevenue	Total Number	Positive New Brunswick Tax Paid	Percent of Total	No New Brunswick Tax Paid	Percent of Those in Income Group	Percent Of Non-Tax Paying
(-) or Nil	1,797	98	5.5	1,699	94.5	18.7
1 - 100,000	4,916	1,587	32.2	3,329	67.7	36.6
100,001 - 200,000	2,148	911	42.4	1,237	57.6	13.6
200,001 - 500,000	2,771	1,483	53.5	1,288	46.5	14.2
500,001 - 1,000,000	1,495	963	64.4	532	35.6	5.8
1,000,001 - 5,000,000	1,732	1,171	67.7	561	32.3	6.2
5,000,001 - 10,000,000	314	212	67.5	102	32.5	1.1
10,000,001 - 20,000,000	261	176	67.4	85	32.6	0.9
20,000,001 - 50,000,000	248	154	62.1	94	37.9	1.0
50,000,001 - 100,000,000	151	97	64.2	54	35.8	0.6
100,000,000 and Over	375	258	68.8	117	31.2	1.3
TOTAL	16,208	7,110	43.9	9,098	56.1	100.0

Of the 9,098 corporations which did not pay any corporate income tax to New Brunswick there were 1,699 which reported no gross revenue. Corporations reported no gross revenue for a number of reasons including the fact that 650 of these companies were inactive or bankrupt in 1988. It is clear that corporations with no gross revenue should not be expected to pay income tax. Therefore, the potential number of taxable corporations that did not pay corporate income tax in 1988 becomes 7,399 (9,098 - 1,699). Table 3.8 provides information on these firms.

TABLE 3.8
DISTRIBUTION OF NON-TAXABLE NEW BRUNSWICK FIRMS HAVING POSITIVE GROSS REVENUES
1988

Gross Revenue	No New Brunswick Tax Paid	No Positive Net Income Per Financial Statement	No New Brunswick Tax Paid But Positive Net Income Per Financial Statement
1 - 100,000	3,329	2,733	596
100,001 - 200,000	1,237	959	278
200,001 - 500,000	1,288	994	294
500,001 - 1,000,000	532	410	122
1,000,001 - 5,000,000	561	449	112
5,000,001 - 20,000,000	187	166	21
20,000,001 - 50,000,000	94	56	38
50,000,001 and Over	171	120	51
TOTAL	7,399	5,984	1,415

Of the 7,399 corporations which have positive gross revenue but did not pay any corporate income tax to New Brunswick in 1988, there were 5,984 corporations which reported no positive net income on their financial statements. It would not be expected that firms with no positive net income would be assessed corporate income tax. This leaves 1,415 firms with positive net income per their financial statements which did not pay any New Brunswick tax.

The 1,415 firms that had positive net income, but which did not pay tax, represents 8.7 percent of all New Brunswick firms. Furthermore, of the 1,415 firms with positive net income on their financial statements who paid no New Brunswick tax, 82.5 percent or 1,168 firms had gross revenues under $500,000, and 91.1 percent or 1,290 firms had gross revenues of less than one million dollars.

Of the 1,415 firms with positive net income on their financial statements but which paid no corporate income tax in 1988, roughly 99 percent used legitimate deductions: charitable donations, gifts to the Crown, deductible taxable dividends, restricted farm losses, non-capital losses, net capital losses and other adjustments; to reduce their taxable income to zero. If a firm has no taxable income there is no tax liability.

The remaining corporations with taxable income, and therefore tax owing, used tax credits such as foreign tax credits, investment tax credits or political contributions tax credits, to reduce their tax payable to zero in 1988. A larger proportion of these corporations have gross revenues of less than $100,000.

In evaluating the issue of whether or not corporations actually pay corporate income taxes it is important to recognize that the corporate income tax is not the only tax levied on corporations. In addition to the corporate income tax, business pays all or part of a number of taxes, fees or charges. Some examples include; workers compensation, royalties, the insurance premium tax, the metallic minerals tax, the sales tax and the gasoline and motive fuel tax.

New Brunswick is one of the few provinces which actually imposes a property tax at the provincial level. The property tax is based on the market value of the property and bears no relationship to the current economic circumstances a firm finds itself in. Therefore, whether a firm makes a profit or a loss, and whether or not it pays any income tax, a firm which owns property will pay property tax to the Province.

The financial corporations capital tax which applies to deposit accepting institutions can also be viewed as a minimum tax on financial institutions. This is the case because the tax, while somewhat sensitive to the level of activity in the Province, is not a function of the year-to-year fluctuations in profits.

If the Province were to consider imposing a minimum tax on corporations one viable option would be to impose a broadly based capital tax. This form of taxation, which has been adopted by a number of provinces, is assessed in Section IV.

SECTION IV
ALTERNATIVES TO REBALANCE THE PROVINCE'S TAX SYSTEM

TAX PRINCIPLES

In evaluating the tax system there are several key principles which every tax system strives to achieve. These include:

- **Taxes Should Raise Sufficient Revenues**

The fundamental objective of a tax system is to raise sufficient revenues to enable the government to provide those services demanded by the public. These revenues should be raised, in a manner which is fair, as simple as possible and must be competitive with surrounding jurisdictions.

- **Taxes Should be Fair**

Fairness or equity in the tax system dictates that taxes must be levied according to a taxpayer's ability to pay, and that the level of taxes paid should relate to the benefits received. It is clear that not every tax can achieve both these goals, however, on balance the tax system should be designed so that these dual goals are achieved.

The tax system must ensure that both horizontal and vertical equity are evident in the tax system. Horizontal equity refers to ensuring that those who have a similar ability to pay actually pay similar taxes. Vertical equity is concerned with ensuring that as a taxpayer's ability to pay increases so do his or her taxes.

- **Taxes Should Not Interfere With Economic Decisions**

It is well recognized that in general all taxes interfere with economic efficiency and competitiveness by interfering with production and consumption decisions. From a tax policy viewpoint, promotion of efficiency is an exercise in minimizing the interference of the tax system with economic decisions.

- **Simplicity**

The tax system should be as simple as possible and administratively efficient. Unless a tax system achieves a critical degree of simplicity taxpayers, vendors and governments will face difficulty in complying with the tax system.

ALTERNATIVES

The tax system in any jurisdiction is a direct function of the expenditure responsibilities in that jurisdiction. It is well recognized that in New Brunswick the expenditure responsibilities; including health, welfare and post-secondary education; are significantly higher than in the State of Maine.

As discussed in Section III New Brunswick has a heavy reliance on consumption taxes. This has contributed to the current cross border shopping problem. If New Brunswick, in an attempt to eliminate the negative impacts of cross border shopping, were to duplicate Maine's consumption tax system it would lose between $400 and $450 million a year. Clearly the adjustments in government programs or the tax system required to compensate for a change of this size would be extremely large.

There are a number of alternatives which the Province could consider to reduce current reliance on consumption taxes. Keeping in mind that two of the critical issues facing the Province's tax structure are the heavy reliance on consumption taxes and the need to ensure that all corporations pay a minimum tax, the following alternatives are offered as examples of ways to rebalance the tax system. These alternatives include broadening the sales tax base and reducing the sales tax rate, collecting the sales tax at the border, and reducing the gasoline, tobacco and alcohol taxes and in general substituting new sources of revenue for foregone consumption taxes. The Province could even go as far as to consider the complete removal of the sales tax, however, it would be virtually impossible to make up the $630 million foregone without pushing the other provincial tax rates extremely high.

In evaluating the following alternatives it is clear that the current system is not meeting some of the key principles which every tax system strives to achieve. For example because of the ever increasing impact of cross border shopping the ability of the tax system to continue to raise sufficient revenues from the consumption taxes is questionable. This clearly violates the first principle. Another example is that because a large number of corporations do not pay income tax the overall tax system may not be perceived to be fair. This clearly violates the second principle. The lack of a level playing field in the consumption taxes results in consumers choosing to shop in Maine which means the tax system is affecting economic decisions. This type of distortion violates principle 3.

ALTERNATIVE 1 - REDUCING THE SALES TAX RATE TO 10 PERCENT/COLLECTING PST AT THE BORDER

One approach would be for the Province to accept the federal government's offer to collect provincial sales tax at the border along with the GST. The federal government has indicated that it would collect New Brunswick's sales and tobacco tax at the border with Maine if the Province defines its sales tax base for "goods" the same as the GST base, with some exceptions. The federal government is not asking the Province to extend its tax base to services nor would it require that the Province adopt a value-added tax which would involve input tax credits.

The federal government, for a variety of reasons including free trade and GATT concerns, refuses to collect provincial sales tax at the American border unless the provincial sales tax is applied to the same base internally and at the border.

To duplicate the federal tax base for goods New Brunswick would have to amend the Social Services and Education Tax Act to broaden the sales tax base to include the following items:

TABLE 4.1
BASE EXPANSION TO DUPLICATE GST TAX BASE

ITEM	APPROXIMATE VALUE IN 1991 ($ MILLION) 11%	10%
Clothing and Footwear	55.0	50.0
Prepared Meals ($1.00 meal exemption)	3.0	2.7
Textbooks, Classroom Supplies, and Library Purchases	2.5	2.3
Fertilizer, Lime, Shrubs	2.0	1.8
Status Indian Exemption - Section 87	1.7	1.5
Paperback Books and Hardcover Books	1.5	1.4
Funeral Caskets	0.5	0.4
Coal, Coke, and Firewood	Minimal	
Wood Stoves	0.3	0.3
Miscellaneous	0.4	0.4
GST Definition of Basic Groceries	4.0	3.6
Prepared Foods, Beverages, Candy, Snack Foods	4.0	3.6
Minimum PST of 3¢ / Minimum Purchase of 25¢	Minimal	
Exemption for Newspapers, Magazines & Periodicals	3.0	2.7
GST Definition for Medical Devices and Prescription Drugs	Minimal	
Clay, Sand and Gravel	2.0	1.8
TOTAL	79.9	72.5

NOTE: The numbers in this table differ, in some cases, from the numbers found in Table 2.9. The reason for the divergence is that this table presents the partial removal of some exemptions such as adopting the GST definition for basic groceries.

Given the revenue increase from expanding the sales tax base and the revenue the Province would receive from collecting its sales and tobacco tax at the Maine border the Province could reduce its sales tax rate by 1 percent.

Other than the above noted expansion to the sales tax base the basic exemption structure would remain unchanged. Farmers, fishermen and other exempt groups would continue to receive their current exemptions. Furthermore, the Province's current sales tax exemption for gasoline and motive fuel, home heating fuel (except firewood and coal) and electricity would be maintained.

The most significant base expansion contained in this approach is for clothing and footwear. The impacts of this measure are twofold. First individuals and families would see an increase in sales tax on these items, second retailers of clothing and footwear would face reduced demand as consumers adjust to the new tax regime. On the other hand demand for previously taxed items may increase due to the lower sales tax rate. The biggest savings would be for large ticket items such as automobiles, furniture and appliances.

Table 4.2 presents an interjurisdictional comparison of the tax treatment of clothing and footwear. It is clear that only New Brunswick currently provides a full exemption for clothing and footwear.

TABLE 4.2
INTERJURISDICTIONAL COMPARISON
OF THE TAX TREATMENT OF
CLOTHING AND FOOTWEAR

Jurisdiction	Tax Status	Tax Rate (%)	Comment
Newfoundland	Taxable	12	Children sizes exempt
Prince Edward Island	Taxable	10	Purchases less than $100 exempt
Nova Scotia	Taxable	10	Purchases less than $100 exempt
New Brunswick	Exempt	11	All clothing and footwear exempt
Quebec	Taxable	8	
Ontario	Taxable	8	Children's clothing exempt Footwear less than $30 exempt
Manitoba	Taxable	7	Children's clothing and footwear exempt
Saskatchewan	Taxable	7	Purchases less than $300 exempt
Alberta	No Sales tax in Alberta		
British Columbia	Taxable	6	Children's clothing and footwear exempt
Canada (GST)	Taxable	7	
Maine	Taxable	6	

SOURCE: New Brunswick Department of Finance

The benefit of collecting provincial taxes at the Maine border is that it overcomes the sales tax incentive for New Brunswickers to purchase goods in the United States. In fact, New Brunswickers would pay more sales tax on goods purchased in Maine than on goods purchased in New Brunswick since in Maine they would also be paying the 6 percent Maine sales tax. This measure should, therefore, reduce cross border shopping. However, the additional tax would increase the incentive to smuggle, and the incentive to plan trips to the United States to take full advantage of the personal import limits. On balance, collecting the provincial sales tax at the border should reduce the volume of cross border shopping for goods.

One of the downsides of this proposal is that it cannot totally eliminate the revenue loss from cross border shopping. For example the GST is not collected on incidental purchases below certain thresholds, or on the first $100 purchased by those out of the country 48 hours; and even more importantly, it is also not collected on "services" purchased across the border. Purchases of services out of the country are not confined to those spending their winters in Florida, but are a major component of expenses for those spending one or two nights out of the country. In such cases revenue losses to the provincial government are not confined to sales tax. The losses in sales in New Brunswick represent lost jobs and lost personal income tax revenue, and losses in other tax revenues.

A variation of this approach would be for the Province to consider full harmonization of its provincial sales tax system with the GST. This would involve expanding the sales tax base even further to include services as well as all goods. This alternative would also require input tax credits for all business purchases which limits the ability of the Province to lower its sales tax rate. Currently Quebec is the only province to fully harmonize its provincial sales tax with the federal Goods and Services Tax. Even in Quebec full harmonization will not be a reality until July 1, 1992 at which time its sales tax rate will remain unchanged from its current rate of 8 percent.

ALTERNATIVE 2: REDUCING OTHER CONSUMPTION TAXES

Another approach to reduce the Province's reliance on consumption taxes would be for the Province to lower all of its consumption tax rates and replace the lost revenue with a variety of measures.

GASOLINE

As discused in Section II New Brunswick's gasoline tax rate of 12.7 cents per litre is the fourth highest in the country behind Ontario (14.7 cents per litre), Quebec (14.5 cents per litre) and Newfoundland (13.7 cents per litre). New Brunswick's diesel tax rate of 13.7 cents per litre is also ranked fourth behind Newfoundland (15.6 cents per litre), Ontario (14.3 cents per litre), and Nova Scotia (14.3 cents per litre).

In general New Brunswick's gasoline and diesel tax rates are comparable to those in other provinces. The Province, however, shares a border with Maine where the tax on gasoline (5.8 cents per litre) and diesel (6.1 cents per litre) are significantly lower.

As a response to the cross border shopping problem, the Province could lower its gasoline tax and replace the lost revenue by increasing registration fees. If the Province were to cut its gasoline tax rate in half from 12.7 cents per litre to 6.35 cents per litre, which approximates the Maine rate, it would lose $58 million.

Given the current fiscal situation the Province could not absorb a revenue loss of $58 million. One possible option to replace the lost revenue would be to increase motor vehicle license and registration fees. To replace the lost revenue motor vehicle fees on passenger cars would have to increase substantially. In fact, if the full $58 million is made up by increased fees for passenger cars each car registration would cost $215 per year.

New Brunswick is one of five provinces (New Brunswick, Nova Scotia, Newfoundland, Manitoba and British Columbia) which base their registration fees on weight. The others levy a flat fee per car. Table 4.3 presents a comparison of current registration fees. The four provinces which are not included in this comparison (Manitoba, Saskatchewan, Alberta and British Columbia) have registration fees which are lower than in New Brunswick.

TABLE 4.3

INTERJURISDICTIONAL COMPARISON OF PASSENGER VEHICLE FEES

($)

Category (Vehicle Mass KG)	N.B.	Maine[1]	N.S.[2]	P.E.I.	Nfld.	Que.[3]	Ont.[4]
0 - 1,000	39	22	39	48	65	65	66
1,001 - 1,200	49	22	52	48	65	65	66
1,201 - 1,400	59	22	52	48	65	65	66
1,401 - 1,600	70	22	52	48	65	65	66
1,601 - 1,800	80	22	69	48	65	65	66
1,801 - 2,000	92	22	69	48	65	65	66
2,001 - 2,200	105	22	69	48	65	65	66
2,200 and Over	123	22	69	48	65	65	66

1 In addition to a standard registration fee Maine levies a Motor Vehicle Excise Tax based on the original value of a vehicle and its age.
2 In Nova Scotia the $52 fee is applicable for cars between 1,001 and 1,500 kgs.
3 In Quebec the registration fee also includes a $25 charge for the mandatory provincial insurance program which brings the total fee to $90.
4 In Ontario the registration fee is $90 in greater Toronto and $0 in Northern Ontario.

New Brunswick would lose revenue if it adopted the registration fee structure used in Prince Edward Island, Nova Scotia, Manitoba, Alberta and British Columbia. Ontario's fee structure ($66 per vehicle) would generate the most additional revenue to the Province of New Brunswick but it would only generate an additional $1.7 million.

The Maine system is considerably different from that used in the provinces. In Maine the registration fee of $22 per vehicle is supplemented by a Motor Vehicle Excise Tax. This excise tax, which is paid each year, is based on the original value and age of the car. The fee structure for Maine's Motor Vehicle Excise Tax is as follows:

TABLE 4.4
THE MAINE MOTOR VEHICLE EXCISE TAX

Year	Tax Rate (%)	Tax on a $10,000 Car ($)
1	2.40	240
2	1.75	175
3	1.35	135
4	1.00	100
5	0.65	65
6+	0.40	40

It has been suggested that New Brunswick could raise additional revenue by adopting a tax structure for vehicles which is similar to the Maine tax structure. The ownership of a car faces two taxes in New Brunswick (sales tax and registration fees) and three taxes in Maine, (sales tax, registration fees and the motor vehicle excise fee). The motor vehicle excise tax used in Maine can be viewed as a form of sales tax applied only to motor vehicles. The combined tax load of the sales tax and registration fees is heavier in New Brunswick than in Maine.

Lowering the tax on gasoline by 50 percent would make travelling less expensive. Therefore, the cost of driving from Fredericton, Moncton, Saint John, etc., to Bangor would fall. This could have the unintended effect of increasing the number of trips to buy items other than gasoline.

Even if the Province cut its gasoline tax in half the price in New Brunswick would still be higher than in Maine. Therefore, while this move might reduce the number of litres purchased in Maine it would not eliminate the problem.

Reduced gasoline prices removes the incentive to conserve gasoline and motive fuel which may be negative from an environmental point of view.

Given the magnitude of the increase in fees some reduction in the number of vehicles registered could be anticipated. Furthermore, the shift to higher registration fees would mean that the amount paid to the Province to maintain the highway system would become less sensitive to the distance travelled or road usage.

The increased cost of higher registration fees to truckers would affect prices and might affect trucking firms' profitability. Registration fees are paid in a lump sum, therefore, like property taxes would attract significant resistance if they are increased. Some individuals may have difficulty paying such high lump sum fees.

If the Province were to adopt a regime as outlined above, this would mean New Brunswick would have the highest license fees for passenger vehicles in Canada. Collecting less tax revenue on gasoline and more revenue on license fees would make it more expensive for people who do not make extensive use of the highways and less expensive for those who consume a lot of gasoline. It would also give a benefit to anyone using New Brunswick as a pass-through province.

Tobacco Tax

From 1981 to April 1991 the Province calculated its tobacco tax as a percentage of price. This practice resulted in increasing provincial taxes on tobacco products as retail prices and federal taxes increased. The Province discontinued this practice effective April 1, 1991 but at that time the rate had reached 9.38 cents per cigarette. Currently the only Province with a higher tax per cigarette is British Columbia with a tax rate of 9.4 cents. In New Brunswick, unlike British Columbia, the sales tax applies to tobacco sales.

The high tobacco tax in New Brunswick has not necessarily led to reduced tobacco consumption. It has, however, led to reduced purchases of tobacco in the Province, and dramatic increases in consumption of tobacco purchased in the United States. This is evident by the fact that tobacco sales in New Brunswick have dropped faster than elsewhere in Canada. The volume decline can be attributed to three sources:

- individuals quitting;
- individuals buying legal cigarettes outside New Brunswick; and
- individuals purchasing smuggled cigarettes either here or outside the Province.

The volume response to the price increase over the last two years has been extremely large and immediate. If, for discussion purposes, it is assumed that a similar volume response would be experienced if the price of tobacco was reduced then it is possible the Province could reduce its tobacco tax rate to 7.00 cents per cigarette with only a small revenue loss. This of course assumes that everyone who reduced their purchases of tobacco in New Brunswick due to the price increase would purchase the same amount in the Province that they did prior to the last tobacco tax increase. For a variety of reasons many consumers may choose not to do so.

Several measures are required in order to ensure that the Province's revenue loss is minimized if it were to reduce its tobacco tax to 7 cents per cigarette. First there would have to be a strict enforcement of the Province's new "marking provisions". Second the fines for having smuggled tobacco must be increased substantially and brought in line with other provinces. Finally, the federal government must begin collecting New Brunswick's tobacco tax at the border. These factors combined with the tax reduction to 7 cents per cigarette would help reduce the volume of cigarettes purchased in the United States.

Alcohol Taxes

The Province of New Brunswick has relatively high liquor taxes including both the mark-ups and the liquor licensing fee. In New Brunswick the mark-ups are based on a percentage of price. If the Province were to consider reducing its taxes on alcohol one obvious choice might be the reduction or elimination of the liquor licensing fee. Industry has called for the elimination of the liquor licensing fee.

The Province would lose roughly $2.5 to $3.0 million annually if it reduced the liquor licensing fee from 11 percent to 6 percent and $5 million if it totally eliminated the fee.

The economic impact of this measure would be relatively small and it is unclear that the savings would be passed on to consumers.

Another option would be to target specific products for a reduction in price in an effort to generate additional sales and attract tourists to the Province.

ALTERNATIVE 3 - REDUCING THE SALES TAX RATE TO 7 PERCENT

The above alternatives were presented as a way the Province could make limited adjustments to its current tax system in an effort to reduce its reliance on consumption taxes. The following alternative presents a major shift in the tax structure in an attempt to significantly reduce the Province's sales tax rate. This alternative would represent an aggressive approach to reducing the sales tax rate from 11 to 7 percent which is the same as the GST.

Lowering the sales tax rate to 7 percent would cost the Province between $218 and $230 million. This revenue could be made up in a variety of ways. The following three packages are provided for illustrative purposes only. There are many other packages which could be given consideration. It is assumed the first $50 to $60 million would be found by broadening the sales tax base and collecting the provincial sales tax at the border which was outlined above as Alternative 1.

PACKAGE 1: FLAT TAX

By introducing a 3 percent flat tax applied to net income, the Province could raise the revenue foregone by lowering the sales tax rate to 7 percent. At the same time with a 3 percent flat tax the current personal income tax rate could be lowered from 60 percent of federal basic tax to 55 percent of federal basic tax. This package would leave provincial revenues unchanged.

The lower personal income tax rate on federal basic tax would ensure the Province's marginal rates are comparable to those in jurisdictions utilizing flat taxes. The flat tax could be designed such that it did not affect low income earners.

To ensure that the public is aware that the flat tax is specifically designed to replace the sales tax rate reduction the flat tax could be identified as a "sales tax replacement levy".

With this approach, average disposable income would remain unchanged assuming vendors did not increase their prices to capture the lower sales tax. In general there would be no reason to expect increased wage demands. The higher tax paid as income taxes would be balanced by the reduction in provincial sales tax rates which would lower the total cost of retail purchases.

As with any tax change individuals will be affected differently depending on their consumption patterns. The new "replacement tax" would be collected before individuals make their consumption choices. Consumers would be free to shop where they choose, without affecting provincial revenues. However, with such a system it would be much more attractive to shop in New Brunswick. The lower sales tax would also be an incentive for some in Maine and neighboring provinces to shop in New Brunswick for certain goods and services. It should also have a positive impact on tourism.

Table 4.5 presents the approximate value of each of the measures contained in Package 1. As is the case with all the packages, the revenue estimates are provided for illustrative purposes only. This package could potentially result in a small revenue gain for the Province, however, each of the packages could be designed to leave the Province's financial position unchanged.

TABLE 4.5
APPROXIMATE VALUE OF
TAX MEASURES CONTAINED IN PACKAGE 1

Tax Measure	Value ($M)
Broaden Sales Tax Base at 7%	51
Collect Tax at Maine Border at 7%	7
3% Flat Tax on Net Income	226
Lower PIT Rate From 60% of Federal Basic Tax To 55% of Federal Tax	-48
Lower Sales Tax Rate to 7%	-218 to 230
Net Impact on Revenues	+18 to +6

PACKAGE 2: PARTIAL REMOVAL OF PROPERTY TAX CREDIT/FLAT TAX

Another approach to recovering the revenues foregone by reducing the sales tax to 7 percent could involve introducing a 1.5 percent flat tax and at the same time providing for the removal of one-third of the owner-occupied residential property tax credit. The 1.5 percent flat tax would generate roughly $115 million and the removal of one-third of the property tax credit would generate $40 million.

In general this package would have similar impacts as the previous package. The removal of one-third of the owner-occupied residential tax credit would bring New Brunswick's combined provincial/local property tax burden on owner-occupied residences closer to the levels experienced in other provinces. Unlike Package 1, however, with this package it would not be possible to reduce the personal income tax rate of 60 percent of basic federal tax.

The advantage to this approach is that it spreads the shift in tax burden to both individuals who have a stock of wealth as represented by ownership of property and those who have taxable income. The disadvantage is that not all property owners may be able to afford the increased property tax burden. It must be kept in mind, however, that these same individuals would benefit from the sales tax reduction.

Table 4.6 presents the financial impact of the measures contained in Package 2. The revenue estimates are provided for illustrative purposes only. While this package could potentially result in a small revenue loss for the Province it is possible to design the measures to ensure the package has no impact on the Province's overall financial position.

TABLE 4.6
APPROXIMATE VALUE OF
TAX MEASURES CONTAINED IN PACKAGE 2

Tax Measure	Value ($M)
Broaden Sales Tax Base at 7%	51
Collect Tax at Maine Border at 7%	7
Removal of 1/3 of the Residential Property Tax Credit	40
1.5% Flat Tax on Net Income	115
Lower Sales Tax Rate from 11% to 7%	-218 to -230
Net Impact on Revenues	-5 to -17

PACKAGE 3: FLAT TAX/MINIMUM CORPORATE TAX

In general terms the initial incidence of about one-third of the sales tax collected falls on the business sector. Therefore, a rate reduction from 11 percent to 7 percent should benefit business by between $70 to $80 million. The obvious drawback to either of the above packages is that while the business sector benefits from a sales tax rate reduction it is not called on to pay any of the increased taxes.

To recapture a significant share of this benefit the Province could introduce a minimum corporation tax in the form of a broadly based capital tax of one-half of one percent. A capital tax is a tax on the "assets" of a firm. It applies to the value of real and financial assets used, including debt, and accumulated surpluses. Such a measure would generate in the area of $40 to $50 million. The remaining revenue could be made up by a 1.5 percent flat tax on net income ($115 million).

Table 4.7 presents the approximate value of each of the measures contained in Package 3. The revenue estimates are provided for illustrative purposes only. This package would have no overall impact on the Province's revenues.

TABLE 4.7
APPROXIMATE VALUE OF
TAX MEASURES CONTAINED IN PACKAGE 3

Tax Measure	Value ($M)
Broaden Sales Tax Base at 7%	51
Collect Tax at Maine Border at 7%	7
1.5% Flat Tax on Net Income	115
Broadly Based Capital Tax (0.5%)	50
Lower Sales Tax Rate from 11% to 7%	-218 to -230
Net Impact on Revenues	+5 to -7

New Brunswick currently applies a capital tax only to financial institutions. Quebec, Ontario, Manitoba, and Saskatchewan apply a general capital tax which applies to a wide range of companies. The federal government also imposes a capital tax on large corporations. If the Province were to impose a broadly based capital tax of one-half of one percent it would be comparable to those levied in the other provinces.

A broadly based capital tax could be considered as a "minimum tax", which ensures that all corporations make at least some contribution to government revenues even in those circumstances where no income tax is paid. A minimum capital tax would also act as a "withholding tax" on non-resident corporations ensuring that such firms make a contribution to the provincial treasury even if they do not show profits. Another advantage of the capital tax is that it is a relatively stable source of revenue.

In the short-run, a broadly based capital tax should not alter economic activity. However, it could have a negative impact on long term decisions since it takes away part of the incentive to invest and since it effectively takes away part of the return to investment. On the other hand, in the current context the capital tax is merely replacing savings the firms would enjoy as a result of reducing the sales tax rate to 7 percent.

The timing of the introduction of a capital tax is very important. Introducing a capital tax in a recession might contribute to further financial difficulties for some firms. To the extent that "assets" are assessed at their market value, a capital tax can be thought of as a tax on the present value of expected future returns. Although a firm may be viable in the long term, it may not have the cash flow to carry it through a severe downturn.